MINE PERSONNEL

M.P. Lipkewich, Mine Manager
D.J. Bell, Superintendent of Employee Relations
H. Veltmeyer, Plant Superintendent
T.M. Duggan, Chief Accountant
F. Mason, Pit Superintendent
J. Lovering, Mill Superintendent
W.P. Nickel, Smelter Superintendent
B.R. Williams, Chief Engineer

Head Office

1199 West Hastings Street, Vancouver, B.C. V6E 2K5

Mine Office

P.O. Box 937, Kamloops, B.C. V2C 5N4

Registrar and Transfer Agent

The Canada Trust Company, Vancouver, B.C., and Toronto, Ontario

Auditors

Coopers & Lybrand, Vancouver, B.C.

Annual General Meeting of Shareholders
Victoria Room at the Holiday Inn, 1133 West Hastings St., Vancouver, B.C.
on February 21, 1980, at 10:00 a.m. (Pacific Standard Time).

DIRECTORS

A.P. Fawley
R.E. Hallbauer
D.L. Hiebert
N.B. Keevil
N.B. Keevil, Jr.
J.D. Leishman
J.D. Little
R.W. Stewart

OFFICERS

N.B. Keevil, Chairman of the Board
R.E. Hallbauer, President
D.L. Hiebert, Vice-President and Treasurer
L.J. Hicks, Assistant Secretary
G.R. Shipley, Controller
M. Heap, Assistant Controller
N.B. Rudden, Assistant Secretary

To the Shareholders:

It is a pleasure to present the annual report for the period ended September 30, 1979. This period marks Afton's first full year of production and the results attained have been most gratifying.

Operating profit for the fiscal year was $41,714,000, resulting in net earnings of $14,397,000, or $3.80 per share. Metal prices during the period averaged 97¢ a pound for copper and $350 an ounce for gold, expressed in Canadian dollars. Revenue from copper was $50,700,000, from gold $18,700,000 and from silver $3,070,000.

MINING

A total of 23,715,000 tons were mined in the open pit during the year. Of this total 3,964,000 tons were sent to the mill and 404,000 tons of low grade material were stockpiled. The average stripping ratio was 6.7 tons of waste and low grade per ton of ore.

Ore reserves mineable by open pit at year-end were 24,500,000 tons grading 0.94% copper at a stripping ratio of 6.5 tons of waste per ton of ore. Ore reserves have been recalculated based on mining experience and the latest open pit planning. No allowance has been made for reserves that may eventually be mined by underground methods.

MILLING

The concentrator treated 3,068,000 tons grading 1.07% copper. Throughput averaged 8,406 tons per calendar day and recovery averaged 87.3%. A total of 57,266,000 pounds of copper were recovered as concentrate. The concentrate contained 57,608 ounces of gold and 295,000 ounces of silver.

There is a wide variation in ore grade and ore hardness within the Afton ore body. Throughput can vary from 6,000 tons per day to over 10,000 tons per day and ore grade varies between 0.3% copper and 3.0% copper. The concentrator was designed to handle these variations because the limited size of the open pit makes ore blending difficult.

SMELTING

The Afton smelter achieved its full production rate in March after many months of tune-up, during which mechanical problems were solved and operators gained experience with the new process. The smelter produced 39,769,000 pounds of blister copper containing 38,585 ounces of gold and 200,000 ounces of silver. Satisfactory furnace-lining life is being achieved and it is expected that further improvements will be made as a result of improved brick design and operator experience.

SALES

The market for blister copper and concentrate was strong throughout the year. Blister was sold under our long term contracts with BICC and Delta Metals of the U.K. and excess concentrate was sold on the spot market at excellent terms.

The average prices received were 97¢ a pound for copper and $350 an ounce for gold. At year-end some 20,000 ounces of gold remained "unpriced" (to be paid for based on prices in succeeding months under the smelter contract). This quantity was valued at $330 an ounce in the year-end financial results.

FINANCIAL

Total revenue from the sale of blister copper and concentrate was $72,823,000. Operating costs were $31,116,000 for an operating profit of $41,714,000. After deducting interest at $14,457,000; exchange adjustments of $1,044,000; depreciation, depletion and amortization of $6,119,000 and $5,690,000 for income and mining taxes, net profit for the period was $14,397,000 or $3.80 per share.

During the year the outstanding debt was reduced by U.S. $6,000,000 to U.S. $84,000,000. Greater repayments will be possible in the coming fiscal year, now that the concentrate and blister "pipeline" has been filled.

STAFF

At year-end Afton employed 359 people. Relations with the employees continued to be excellent. Afton, for the second time, won the B.C. Department of Mines Safety Award as the safest open pit mine in British Columbia.

At year-end, Mr. M.P. Lipkewich, who has been associated with the project since the feasibility study stage and who has been mine superintendent, was appointed mine manager, succeeding Mr. J.M. Anderson who has been appointed mine manager of the Highmont Project.

The dedication and hard work by John Anderson, and all of the Afton employees is gratefully acknowledged.

On behalf of the Board,

R.E. Hallbauer,
President.

Vancouver, B.C.
January 11, 1980

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1979

ASSETS

	1979 $	1978 $
	in thousands	
CURRENT ASSETS		
Cash	5	1,616
Concentrates, blister and settlements receivable (notes 2 and 4)	40,289	11,371
Accounts receivable (note 4)	1,460	461
Supplies and prepaid expenses — at cost	3,576	3,126
	45,330	16,574
PROPERTY, PLANT AND EQUIPMENT (notes 3 and 4)	84,005	89,417
UNAMORTIZED FOREIGN EXCHANGE LOSS	8,640	11,731
	137,975	117,722

LIABILITIES

	1979 $	1978 $
	in thousands	
CURRENT LIABILITIES		
Bank loans	6,063	
Accounts payable and accrued liabilities	6,790	2,492
Current portion of long-term debt	15,672	7,107
	28,525	9,599
LONG-TERM DEBT (note 4)	82,968	101,728
DEFERRED INCOME AND MINING TAXES	7,622	1,932
	119,115	113,259

SHAREHOLDERS' EQUITY

	1979	1978
CAPITAL STOCK		
Authorized — 5,000,000 shares without par value		
Issued and fully paid — 3,787,172 shares	1,920	1,920
RETAINED EARNINGS (note 6)	16,940	2,543
	18,860	4,463
	137,975	117,722

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Afton Mines Ltd. (N.P.L.) as at September 30, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the accounting policy for translation of foreign currency referred to in Note 7(a) to the financial statements, on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Vancouver, B.C.
November 9, 1979

APPROVED BY THE DIRECTORS

Director

Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1979

	1979 $	1978 $
	in thousands	
RETAINED EARNINGS — BEGINNING OF YEAR		
As previously stated	2,752	(79)
Prior period adjustment (note 7(a))	209	
As restated	2,543	(79)
NET EARNINGS FOR THE YEAR	14,397	2,742
REORGANIZATION COSTS		(120)
RETAINED EARNINGS — END OF YEAR	16,940	2,543

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1979

	1979 $	1978 $ (5 months - note 7(c))
	in thousands	
REVENUE		
Concentrates and blister	72,823	25,817
EXPENSES		
Concentrate and blister production (note 5)	31,116	12,822
Interest on long-term debt	14,402	4,821
Other interest	55	69
Currency translation adjustments	1,044	509
Depreciation, depletion and amortization	6,119	2,814
	52,736	21,035
EARNINGS BEFORE INCOME AND MINING TAXES	20,087	4,782
DEFERRED INCOME AND MINING TAXES	5,690	1,932
NET EARNINGS BEFORE EXTRAORDINARY ITEM	14,397	2,850
Refinancing costs		108
NET EARNINGS FOR THE YEAR	14,397	2,742
EARNINGS PER SHARE:		
Before extraordinary item	$ 3.80	$ 0.75
After extraordinary item	$ 3.80	$ 0.72

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1979

	1979 $	1978 $
	in thousands	
SOURCE OF WORKING CAPITAL		
Funds provided from operations	27,546	9,214
Loans from customers		16,607
Term bank loan		2,180
Advances from Teck Corporation	302	120
	27,848	28,121
USE OF WORKING CAPITAL		
Property, plant and equipment	937	16,029
Long term debt currently maturing	17,081	
Refinancing costs		108
Reorganization costs		120
	18,018	16,257
INCREASE IN WORKING CAPITAL	9,830	11,864
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	6,975	(4,889)
WORKING CAPITAL AT END OF YEAR	16,805	6,975
REPRESENTED BY:		
Current assets	45,330	16,574
Current liabilities	28,525	9,599
	16,805	6,975

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the financial statements of the company's wholly owned subsidiary Sugarloaf Ranches Limited.

Translation of Foreign Currencies

Amounts stated in foreign currency have been translated to Canadian dollars on the following bases:

(a) property, plant and equipment, together with related accumulated depletion, depreciation and amortization — at exchange rates in effect at the appropriate acquisition dates.

(b) all other assets and liabilities, including long-term debt — at exchange rates in effect at the balance sheet date.

(c) all earnings accounts other than depletion, depreciation and amortization — at average exchange rates for the year.

Gains and losses arising from the translation of long-term debt are deferred and amortized over the term of the debt.

Concentrates, Blister and Settlements Receivable

Concentrates are recorded at estimated net realizable value except where there is no contract for sale in which case they are recorded at the lower of cost and net realizable value. Blister and settlements receivable are recorded at estimated net realizable value.

Cost is determined on an average cost basis. Net realizable value is based upon the latest available metal prices, weights and assays, less provision for possible future declines in metal prices.

Property, Plant and Equipment

Buildings, equipment, and mobile equipment are depreciated on a unit of production basis over their estimated useful life, commencing May 1, 1978 as follows:

Buildings and equipment	— 20 years
Mobile equipment	— 3 to 11 years

Mineral properties, rights and deferred costs are amortized on a unit of production basis over the estimated life of the orebody, commencing May 1, 1978 as follows:

Pit development	— 11 years
Mineral properties, rights and deferred costs	— 20 years

Income and Mining Taxes

The company records income and mining taxes on the tax allocation basis. Differences between the amount of expense reported for tax purposes and accounting purposes results in deferred income and mining taxes which are shown separately in the statement of earnings and balance sheet. Deferred income taxes relate primarily to depreciation and depletion of property, plant and equipment. Investment tax credits reduce the current year's charge for income taxes.

2. CONCENTRATES, BLISTER AND SETTLEMENTS RECEIVABLE

	1979 $	1978 $
	in thousands	
Concentrates	12,051	893
Blister	8,377	3,237
Settlements receivable	19,861	7,241
	40,289	11,371

3. PROPERTY, PLANT AND EQUIPMENT

	1979			1978
	Cost	Accumulated depreciation, depletion and amortization	Net	Net
	$	$	$	$
	in thousands		in thousands	
Building and equipment	64,896	5,019	59,877	63,726
Mobile equipment	17,002	3,035	13,967	15,081
Mineral properties, rights, deferred costs and Sugarloaf Ranch	11,035	874	10,161	10,610
	92,933	8,928	84,005	89,417

4. LONG-TERM DEBT

	1979 $	1978 $
	in thousands	
(a) Long-term debt is comprised of:		
Term bank loan of U.S. $69,000,000 (1978 — $75,000,000) with interest at 1½% above the U.S. base rate repayable over eight years after commencement of production, subject to acceleration in the event of excess earnings as defined in the loan agreement	80,106	88,841
Term loans of U.S. $15,000,000 from customers of the blister production. Interest is based on the borrowing rates of the lenders and is repayable over two years commencing when the term bank loan is repaid	17,414	19,176
Term loan from Teck Corporation to acquire and maintain Sugarloaf Ranches Limited. Repayable on December 31, 1985, with interest at prime plus ¾%	1,120	818
	98,640	108,835
Debt due within one year	15,672	7,107
	82,968	101,728

Minimum amounts, based on current rates of exchange, estimated to meet repayment provisions in each of the next five years:

	$
1980	15,672,000
1981	16,253,000
1982	16,253,000
1983	16,253,000
1984	12,770,000

(b) Security for long-term debt and bank loans

The term bank loan and the customers' loans are respectively secured by a first and second fixed and floating charge over all of the company's assets.

The loan from Teck Corporation is secured by all the assets of Sugarloaf Ranches Limited.

The bank loans are secured by an assignment of inventories and accounts and settlements receivable.

5. SMELTER INCENTIVE

In accordance with the Copper Smelting and Refining Act the Province of British Columbia has entered into an agreement with the company to pay until 1983 five cents per kilo of copper smelted, up to a maximum of $500,000 in any government fiscal year ending March 31. During the company's fiscal year ended September 30, 1979 the company received $758,000 under the agreement which has been applied to reduce the cost of concentrate and blister production.

6. DIVIDEND RESTRICTION

Under the terms of the term bank loan, the company shall not declare or pay any dividends without the prior written consent of the banks.

7. ADJUSTMENT OF PRIOR YEARS' EARNINGS AND COMPARATIVE FIGURES

(a) Effective October 1, 1978 the company changed its method of translating amounts stated in foreign currency, as described in the significant accounting policies. The new policy has been applied retroactively and the effect of this change has been to decrease net earnings in the current year by $58,000. The balance of retained earnings at the beginning of the year has been restated and decreased by $209,000 which is applicable to the year ended September 30, 1978.

(b) Certain comparative figures have been reclassified to conform to the 1979 financial statement presentation. These reclassifications had no effect on earnings but working capital was increased by $1,409,000.

(c) The company commenced commercial production on May 1, 1978, accordingly the comparative statement of earnings include earnings for the five months from that date.

8. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The company has eight directors and seven officers, three of whom are also directors. Remuneration to the directors and senior officers (as defined by the British Columbia Securities Act) amounted to $212,000, (1978 — $183,500) including directors' fees of $15,000 (1978 — nil).

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